

Message Text

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C O N F I D E N T I A L SECTION 1 OF 2 MOSCOW 19869

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SUBJECT: EAST EUROPEAN TRADE AND ECONOMIC TIES: THE MOSCOW VIEW

REF: (A) PRAGUE 3358, (B) MOSCOW 18013, (C) WARSAW 8333,
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SUMMARY: IN RECENT WEEKS THE SOVIET UNION HAS SIGNED TRADE PROTOCOLS
COVERING BILATERAL TRADE IN 1977 WITH CZECHOSLOVAKIA, EAST GERMANY,
HUNGARY AND POLAND. NO PROTOCOLS HAVE YET BEEN SIGNED WITH EITHER
BULGARIA OR ROMANIA, AND THIS COULD, AT LEAST IN THE CASE OF THE
LATTER, INDICATE SOME DISAGREEMENT CONCERNING QUANTITIES AND/OR
PRICES. ALTHOUGH SILENT ON THE DETAILS, THE SOVIETS' FIVE-YEAR
PLAN STIPULATES THAT SOVIET FOREIGN TRADE WILL GROW FASTEST (41
PERCENT) WITH THE "SOCIALIST" COUNTRIES. THOSE PROTOCOLS WHICH
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HAVE ALREADY BEEN SIGNED INDICATE THAT THIS WILL BE TRUE FOR
NEXT YEAR, ESPECIALLY IN SOVIET TRADE WITH POLAND.

THE CURRENT ECONOMIC DIFFICULTIES OF SOME EAST EUROPEAN
COUNTRIES PRESUMABLY INCREASE SOVIET LEVERAGE IN THEIR
BILATERAL TRADE RELATIONS. THE SOVIETS WILL DOUBTLESS TRY

TO USE THIS INCREASED LEVERAGE TO PROMOTE THEIR VERSION OF CEMA AND PERHAPS TO GAIN GREATER INFLUENCE OVER FOREIGN AND DOMESTIC POLICIES. BUT THE EXTENT OF THIS LEVERAGE COULD BE MODERATED TO SOME DEGREE BY THE WILLINGNESS OF WESTERN COUNTRIES TO MAKE CREDIT AND MARKETS AVAILABLE TO THE EAST EUROPEAN COUNTRIES. SOVIET TRADE WITH THE EAST EUROPEANS OUTSIDE THE FRAMEWORK OF THE TRADE PROTOCOLS WILL PERHAPS BE MOST REVEALING AS TO HOW FAR THE SOVIETS ARE WILLING TO GO TO ACCOMMODATE EAST EUROPEAN DEMANDS ON SOVIET RESOURCES, PARTICULARLY FOOD AND ENERGY. THE SOVIETS HAVE BEEN RELUCTANT TO MEET REQUESTS FOR ADDITIONAL CRUDE OIL, SINCE THEY WOULD APPARENTLY PREFER TO MARKET AS MUCH AS POSSIBLE OF THEIR OIL AVAILABLE FOR EXPORT IN HARD CURRENCY AREAS.

END SUMMARY.

1. THOUGH OVERSHADOWED IN THE PUBLIC EYE BY SOVIET-EE SUMMITRY SPECTACULARS, ECONOMIC AND TRADE TALKS BETWEEN THE USSR AND ITS EAST EUROPEAN PARTNERS HAVE BEEN VIGOROUS IN RECENT WEEKS, INCLUDING THE SIGNATURE OF SEVERAL BILATERAL TRADE PROTOCOLS FOR 1977. ECONOMIC RELATIONS FIGURED IN THE SUMMITRY TOO: THEY WERE APPARENTLY PARAMOUNT IN THE GIEREK VISIT TO MOSCOW, AND SIGNIFICANT, IF MUTED, IN THE BREZHNEV VISIT TO BUCHAREST. THE REPORTED DIFFICULTIES IN THE EAST EUROPEAN ECONOMIES SEEMINGLY HAVE MADE IT A TIME FOR STRENUOUS NEGOTIATIONS. CHARACTERISTICALLY, LITTLE CONCRETE INFORMATION ON THE RESULTS OF THESE NEGOTIATIONS HAS COME TO LIGHT IN MOSCOW.

2. ACCORDING TO SOVIET PRESS SOURCES, (A) THE CEMA STANDING COMMISSION ON FOREIGN TRADE MET IN MOSCOW ON NOVEMBER 16 TO

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DISCUSS TRADE TURNOVER AMONG MEMBER COUNTRIES IN THE NEW FIVE-YEAR PLAN PERIOD. SOVIET TRADE WITH CEMA COUNTRIES WILL GROW 40-50 PERCENT IN COMPARISON WITH THE PREVIOUS FIVE-YEAR PLAN PERIOD. THE ORDER OF IMPORTANCE IN SOVIET TRADE AND THE TOTAL FIVE-YEAR TRADE IN BILLIONS OF RUBLES (R1-\$1.33) WAS ANNOUNCED AS FOLLOWS: GDR (31.5), POLAND (28), CZECHOSLOVAKIA (24), BULGARIA (24), HUNGARY (17), AND ROMANIA (9). (B) SOVIET MINISTER OF FOREIGN TRADE PATOLICHEV HAD BILATERAL MEETINGS ON NOVEMBER 16 AND 17 TO DISCUSS 1977 TRADE PROTOCOLS WITH THE FOLLOWING COUNTERPARTS: BARCAK (CZECHOSLOVAKIA), BIRO (HUNGARY), FERNANDEZ FONT (CUBA), OLSZEWSKI (POLAND), SOELLE (GDR), OCHIR (MONGOLIA).

3. IT APPEARS CLEAR THAT GRAIN AND ENERGY ARE MOST IN DEMAND BY THE EAST EUROPEANS. WE WERE TOLD BY A SOVIET DEPUTY MINISTER OF FOREIGN TRADE THAT THERE ARE REQUESTS FOR GRAIN SUPPLIES FROM A NUMBER OF "SOCIALIST" COUNTRIES, WHICH ARE NOW BEING CONSIDERED AT THE "HIGHEST LEVELS" IN THE

USSR. THERE HAVE BEEN UNCONFIRMED REPORTS OF COMMITMENTS UNDERTAKEN.

4. EAST EUROPEANS REPORTEDLY ARE NOW PUSHING HARD FOR HIGHER PRICES FOR THEIR MACHINERY EXPORTS. THIS WOULD HELP TO OFFSET INCREASED PRICES FOR RAW MATERIAL IMPORTS AND FREE ADDITIONAL RESOURCES FOR TRADE WITH THE WEST, OR DOMESTIC CONSUMPTION. EAST GERMAN INDUSTRIAL AND COMMERCIAL REPRESENTATIVES HAVE TOLD WEST GERMANS THAT THEY ARE DISSATISFIED WITH CEMA AND WOULD PREFER MORE WESTERN TRADE. FOLLOWING IS A RUNDOWN OF THE STAT OF BILATERAL SOVIET-EAST EUROPEAN ECONOMIC RELATIONS.

5. BULGARIA. DESPITE THE LACK OF ANNOUNCEMENT THAT A SOVIET-BULGARIAN TRADE PROTOCOL FOR 1977 HAS BEEN SIGNED, WE HAVE HEARD OF NO PARTICULAR PROBLEMS IN SOVIET-BULGARIAN ECONOMIC RELATIONS.

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YM CZECHOSLOVAKIA. ON NOVEMBER 17 PATOLICHEV AND BARCAK SIGNED THE 1977 SOVIET-CZECHOSLOVAK BILATERAL TRADE PROTOCOL, CALLING FOR A MORE THAN 7 PERCENT INCREASE IN BILATERAL TRADE TO 4.7 BILLION RUBLES. EMPHASIS IS GIVEN TO THE EXCHANGE OF MACHINERY, EQUIPMENT AND INSTRUMENTS. INDUSTRIAL PRODUCTS WHICH THE USSR IS TO PROVIDE INCLUDE METALWORKING MACHINE TOOLS, MINING EQUIPMENT, ELECTRONIC CALCULATING MACHINES, AGRICULTURAL MACHINERY, BULLDOZERS, EXCAVATORS, PASSENGER CARS. CZECHOSLOVAKIA WILL SUPPLY ROLLING MILL EQUIPMENT, EQUIPMENT FOR THE CHEMICAL, LIGHT, AND FOOD INDUSTRIES, MACHINE TOOLS, SHIPS AND SHIP'S EQUIPMENT, SWITCH ENGINES, TRUCKS, INSTRUMENTS, AND COMMUNICATIONS EQUIPMENT. GOODS WITH A WORLD MARKET WHICH THE SOVIETS WILL SUPPLY TO CZECHOSLOVAKIA INCLUDE FUEL-ENERGY PRODUCTS, IRON ORE, EMTALS, COTTON AND LUMBER. THE CZECHS IN RETURN WILL SEND THE SOVIETS LARGE-DIAMETER PIPES, PRODUCTS OF THE CHEMICAL INDUSTRY AND OTHER MATERIALS.

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7. HUNGARY. ON NOVEMBER 18 PATOLICHEV AND BIRO SIGNED A TRADE PROTOCOL CALLING FOR A 3.7 BILLION RUBLES TRADE TURNOVER IN 1977. THE SOVIET UNION WILL EXPORT METAL-WORKING MACHINE TOOLS, MINING EQUIPMENT, ROAD-BUILDING MACHINES, TRUCKS, PASSENGER CARS, TRACTORS, OTHER AGRICULTURAL MACHINERY AND OTHER MACHINERY. THE HUNGARIANS ARE TO SUPPLY EQUIPMENT FOR THE CHEMICAL, FOOD, TRADE AND LIGHTING INDUSTRIES, INSTRUMENTS, LIGHTING EQUIPMENT, BUSES, RIVER BOATS, ETC. THE HUNGARIANS ARE DUE TO RECEIVE THE FOLLOWING RAW MATERIALS: PETROLEUM, NATURAL GAS, ELECTRICAL ENERGY, IRON ORE, NON-FERROUS METALS, LUMBER. NO MENTION IS MADE OF QUANTITIES, BUT BY IMPLICATION THERE WILL BE NO UNUSUAL INCREASE IN THE VOLUME OF THE ABOVE, SINCE IT IS STATED THAT THERE WILL BE INCREASES IN DELIVERIES OF CELLULOSE, ASBESTOS, PHOSPHATES, CARDBOARD, IN
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RETURN FOR HUNGARIAN INVESTMENTS IN THE PRODUCTION OF THESE PRODUCTS IN THE USSR. WE HAVE HEARD OF NO OUTSTANDING ISSUES BETWEEN THE TWO COUNTRIES WITH REGARD TO NEXT YEAR'S TRADE.

8. POLAND. THE VISIT BY GIEREK TO MOSCOW WAS THE ONE HIGH-LEVEL VISIT IN WHICH ECONOMIC QUESTIONS SEEM CLEARLY TO HAVE BEEN IN THE FOREGROUND (REF B AND WARSAW 8273). ASIDE FROM THE REPORTED SALE OF BARLEY, LITTLE INFORMATION HAS SURFACED ABOUT THE SOVIET ASSISTANCE. POLES HERE HAVE

GIVEN WESTERN DIPLOMATS CONFLICTING ACCOUNTS, SOME ALLEGING THEY RECEIVED NO SPECIAL ASSISTANCE FROM THE SOVIETS SINCE THEY HAD NEVER ASKED THEM FOR ANY. IT SEEMS SAFE TO ASSUME THAT THE POLES RECEIVED SPECIAL CONSIDERATION FROM THE SOVIETS, ALTHOUGH LESS THAN DESIRED. IT IS UNDERSTANDABLE THAT THE SOVIETS PREFER SILENCE ABOUT SPECIAL AID LEST OTHER "FRATERNAL" STATES DEMAND THE SAME. IF THE SOVIETS WERE TO GENERALIZE THE TYPE OF "LOAN" REPORTED IN REF D (WHICH IS, IN EFFECT, THE WITHDRAWAL OF A POLISH INVESTMENT), THE WHOLE RATIONALE OF THE "INTEGRATION" ASPECT OF CEMA JOINT PROJECTS ON SOVIET SOIL COULD BE JEOPARDIZED, AS WELL AS THE ADVANTAGE TO SOVIET PLANNERS OF SUCH "INVESTMENTS."

9. EAST GERMANY. THE EAST GERMANS WERE AMONG THE FIRST OF THE EAST EUROPEANS TO ANNOUNCE THAT THEY WERE RECEIVING SPECIAL "HELP" FROM THE SOVIETS (BERLIN 6853). THE 1977 PROTOCOL WAS SIGNED IN BERLIN ON DECEMBER 15 BY THE MINISTERS OF FOREIGN TRADE, FIVE DAYS AFTER GDR CHAIRMAN OF THE COUNCIL OF MINISTERS STOPH MET KOSYGIN IN MOSCOW TO DISCUSS "ECONOMIC, SCIENTIFIC AND TECHNOLOGICAL COOPERATION", INCLUDING CEMA INTEGRATION. SINCE GDR DEPUTY MINISTER OF FOREIGN TRADE KATTNER PARTICIPATED IN THIS MEETING, IT MAY HAVE CLEARED UP ANY OUTSTANDING ISSUES. THE PROTOCOL CALLS FOR TRADE TURNOVER OF 6.4 BILLION RUBLES. THE SOVIET UNION WILL SUPPLY PETROLEUM, CONFIDENTIAL

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NATURAL GAS, AS WELL AS MACHINE-BUILDING PRODUCTS, AGRICULTURAL MACHINERY AND CONSUMER GOODS. THE EAST GERMANS WILL EXPORT PRODUCTS OF THE ELECTROTECHNICAL, ELECTRONIC INDUSTRIES, MACHINE TOOLS, AND OTHER EQUIPMENT.

10. ROMANIA. NO PROTOCOL FOR 1977 TRADE HAS YET BEEN SIGNED. THE ROMANIANS WILL CONTINUE TO OCCUPY LAST PLACE AMONG THE SOVIET UNION'S EAST EUROPEAN TRADING PARTNERS. THEY ARE PARTICIPATING IN SEVERAL CEMA PROJECTS IN THE SOVIET UNION (ORENBURG GAS PIPELINE, KIMBAYEV ASBESTOS PLANT, UST-ILIMSK CELLULOSE PROJECT, KURSK IRON ORE) WHICH WILL LEAD TO INCREASED FLOWS OF SOVIET RAW MATERIALS TO ROMANIA. THE ROMANIANS HAVE TOLD ONE WESTERN COLLEAGUE HERE THAT THEY DO NOT EXPECT TO RECEIVE SOVIET OIL BEFORE 1980.

11. THE PRESENT ECONOMIC DIFFICULTIES OF SOME EAST EUROPEAN COUNTRIES, WHICH INCLUDE HIGH HARD-CURRENCY DEBT EXPOSURE, DIFFICULTIES IN MARKETING THEIR PRODUCTS IN THE WEST, INCREASING COSTS OF NECESSARY IMPORTS OF RAW MATERIALS, AND, IN A NUMBER OF CASES, A POOR AGRICULTURAL HARVEST, OBLIGE THEM TO LOOK TO THE SOVIET UNION AS A

SOURCE OF FOOD AND RAW MATERIALS. HOWEVER, THE SOVIET UNION ITSELF HAS LIMITED RESOURCES AND ALSO DESIRED TO IMPORT LARGE AMOUNTS OF WESTERN CAPITAL EQUIPMENT AND TECHNOLOGY. TO DO SO IT MUST SELL IN THE WEST, AND ITS MOST EASILY MARKETABLE PRODUCTS ARE THE SOURCES OF ENERGY AND RAW MATERIALS WHICH THE EAST EUROPEANS WOULD LIKE TO RECEIVE. THEREFORE THE SOVIETS FIND THEMSELVES FORCED TO BALANCE THE NEEDS OF THE EAST EUROPEANS AGAINST THEIR OWN DESIRE TO INCREASE SALES TO THE WEST.

12. WHEREAS THE USSR SHARES THEIR INTEREST IN WESTERN TECHNOLOGY, IT HAS MORE TO OFFER THE WEST IN RETURN, PARTICULARLY THE SAME RAW MATERIALS WHICH THE EAST EUROPEANS NEED. TO THE EXTENT THAT IT WISHES TO PRO-
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MOTE CEMA INTEGRATION, THE SOVIETS MUST SUPPLY ITS ALLIES WITH RAW MATERIALS, EVEN THOUGH ITS OWN PREFERRED EMPHASIS IS ON THE GROWTH OF INTRA-CEMA TRADE IN MACHINERY. DELIVERIES TO EASTERN EUROPE AFFORD THE USSR SOME DEGREE OF INCREASED INFLUENCE OVER THE BEHAVIOUR OF THE "FRATERNAL" COUNTRIES, BUT THIS IS PURCHASED AT THE OPPORTUNITY COST OF GREATER SALES TO THE WEST. THIS SEEMS TO BE THE HEART OF THE CURRENT SOVIET DILEMMA OVER THE DISTRIBUTION OF ITS OWN NATURAL WEALTH. TO THE EXTENT THAT THE WEST IS ABLE TO CONTINUE TO PROVIDE CREDITS AND MARKETS FOR THE EAST EUROPEANS, IT BROADENS THEIR OPTIONS IN DEALING WITH THE USSR, BUT IT ALSO FREES THE SOVIETS FROM AN IMPEDIMENT TO THEIR GROWING INVOLVEMENT IN TRADE WITH THE WESTERN WORLD.
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